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SUBJECT: SCENESETTER FOR PRESIDENT BUSH'S VISIT TO ISRAEL

Classified By: Ambassador Richard H. Jones, Reason 1.4 (b) (d)

11. (C) Israel is preparing to celebrate the sixtieth anniversary of its declaration of independence on May 8 with a characteristically Israeli mix of pride in their achievements and worry about the future. One point that unites virtually all Israelis -- except for the extreme left and right -- is their appreciation for President Bush's friendship and support throughout his two terms. When the President arrives here next week, he will be greeted warmly as a friend not just by Israel's political and military elite, but also by the vast majority of its seven million people. As one average Israeli who wrote to the Ambassador put it, the silent majority of Israelis want to thank the President for sharing with them the celebrations marking Israel's sixtieth year.

Israeli Pride Justified

12. (C) Israelis' sense of pride in their achievements is fully justified. The vision of a strong, democratic Jewish state that would be a haven for Jews everywhere started as a desperate dream, as Israel's fledgling army was bolstered by the arrival of tens of thousands of Holocaust survivors and hundreds of Jewish WW II veterans who arrived just in time to help counter the invasion of the new state by the armies of Egypt, Syria, Iraq, Jordan, and Lebanon, not to mention the Palestinians' irregular forces. Today, Israel is very much a reality, with a vibrantly original Hebrew-speaking cultural life, a Tel Aviv skyline dominated by gleaming skyscrapers, a booming high tech-based economy, and the strongest army in the Middle East. Israel at sixty is firmly Western in its values but also more diverse ethnically and culturally, less Europe-oriented, and decidedly more capitalist than the Israel founded largely by East European-born socialists. For all of its problems with finding the right electoral formula to bring about stable governments, Israel's democracy is also a thriving reality. Israel is the only Middle Eastern country in which its citizens take for granted the peaceful transfer of political power via the ballot box.

And Anxieties are Real

13. (S) Yet this year's celebrations are also tinged with anxiety. The looming threat of a nuclear-armed Iran, whose leaders constantly declare their determination to wipe Israel off the map, weighs heavily on the minds of Israelis, who regard their country not only through the prism of the Holocaust but also as the only UN member-state to be routinely threatened with annihilation. Iran's success in projecting power directly into the core of the Arab-Israeli conflict through its ties to Syria, Hizballah and Hamas compounds the sense of threat. Despite the great diplomatic achievements represented by the peace treaties with Egypt and Jordan, Israelis worry about the frayed nature of their relations with Egypt and are unsure about the outlook of the

Egyptian leadership that will follow Mubarak. Israel enjoys excellent relations with the Jordanian royal palace and security services, but virtually no contact with Jordan's largely Palestinian civil society, most of which boycotts any connections to Israel. Israelis are watching carefully to see how the U.S. manages the next few years of our involvement in Iraq and whether we can succeed in stabilizing Iraq in a way that avoids its becoming either an Iranian client state or a source of instability that overwhelms Jordan's fragile balance.

Changing Views on Palestinians

14. (S) Closer to home, Israelis' views of their relations with their Palestinian neighbors are changing as well. In the aftermath of the Second Intifada, a solid majority of Israelis has come to accept the need for a Palestinian state and for Israel to relinquish control of most of the West Bank (although the exact percentage is still a topic for discussion, as are the timing and circumstances under which this would occur). Gone are the days when many Israelis questioned the existence of a Palestinian national identity, and today only a small minority -- though still an outspoken and determined one -- continues to articulate a demand to retain control of all of the West Bank for religious/historical reasons. Prime Minister Olmert and Foreign Minister Livni, both of whom grew up and began their political careers as strong advocates of Israel's historic right to all of Jerusalem and the West Bank, are among the leading examples of Israelis who have become convinced that only a two-state solution and painful territorial compromise

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will enable Israel to preserve its identity as a democratic, Jewish state. The growing assertiveness of Israel's large Arab minority, now about twenty percent of the total population, is both a further source of concern and an additional impetus to create a Palestinian state.

15. (S) One problem, however, is the lack of a broad-based Israeli confidence in the Palestinians' capacity to hold up their end of the land-for-peace bargain. Olmert publicly stresses his confidence in Mahmoud Abbas' determination to achieve peace, and virtually all Israeli leaders tell us how much they respect Salam Fayyad, yet few believe that Abbas or Fayyad enjoy much popular legitimacy among Palestinians. The public generally accepts the admonitions of Defense Minister Barak and those of the leaders of the IDF and Israel's security services that the Palestinian Authority Security Forces lack the determination to stand up to Hamas if push comes to shove. The precedent set by Gaza is one that no one wants to see repeated in the West Bank. The IDF's strategic concept is heavily rooted in the absolute need to prevent the hills of the West Bank from becoming sites from which rockets could be launched at Israel's heavily populated central plain. Hamas' control of Gaza and the daily rain of rockets from Gaza on southern Israel pose another kind of problem. The political leadership is grappling with whether an Egyptian-negotiated ceasefire in Gaza would calm the situation or make it worse by strengthening Hamas politically and militarily while undermining Abbas. The only other options on the table involve a broader armed conflict with Hamas, but Israel is constrained by the potential for high casualties, international condemnation, and most of all, the lack of a good exit strategy should it decide to invade Gaza to topple the Hamas regime there. All of these calculations could be upset at any time by a rocket from Gaza that strikes a busy school or hospital, thus forcing the Israeli leadership to order massive retaliation. Israel is working with us on missile defense options, but their preferred system will not be operational for two years. One way we could help would be by offering to provide the kinds of short-range defenses against rockets that we are using in Iraq.

Inertia Favors Settlers

¶6. (S) Another outstanding issue is how and when to confront the settler movement and get serious about outposts and settlements. Inertia is on the side of the settlers. Even if they no longer have the sympathy of the Israeli public, they have powerful allies in the bureaucracy, wealthy backers in Israel and abroad who are willing to fund the settlement enterprise, and an IDF that will not challenge the settlers without clear instructions from the political echelon (and even then may drag its feet). Barak, Deputy PM Ramon, and others are engaged in discussions with the settler leadership, and after Secretary Rice's latest visit the PM's office leaked to the media that he has discussed with Abbas moving 60,000 settlers out of the West Bank. If true, this is a dramatic development. Olmert's need to retain the support of the Shas Party and his political ups and downs have so far resulted in the settler leadership being much more determined to hold on than the GOI is to start moving them out.

Olmert's Political Woes Return

¶7. (S) Even as we finalize the preparations for the President's visit, Prime Minister Olmert is once again facing a political crisis. Having survived the Winograd Committee's final report and weathered four separate, interminable corruption investigations, in the past few weeks Ehud Olmert appeared to have regained his political footing and was openly declaring his plans to run for reelection, possibly in early 2009. Then suddenly last week, the media was full of reports that the Attorney General had authorized the police to initiate a fifth criminal investigation of Olmert. At the same time, the Attorney General imposed a gag order that prevented the public from knowing the specifics of the charges and barred the Prime Minister from mobilizing a public defense against them. We do not know the details, though leaks in the media indicate that an American investor may be involved with the PM in alleged financial misdeeds sometime before Olmert became Prime Minister. And although Olmert has survived the four previous investigations, informed Israelis are suggesting that this time he may be in much more serious trouble.

¶8. (S) Labor Party insider and Minister of Infrastructure Fuad Ben Eliezer told the Ambassador May 6 that, according to

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his information, the nature of the charges is such that Olmert may be forced to resign in the near future. Ben Eliezer echoed comments from other political analysts that if Olmert resigns, the most likely scenario will be for Livni to become interim Prime Minister and head of the Kadima Party. If Livni becomes PM, Ben Eliezer was confident that Barak would keep Labor inside the Coalition and that elections could be delayed until some time next year. As Ben Eliezer put it, the political weakness of the constituent members of the coalition is the key to its strength, since none of them have an interest in early elections. At this point, we cannot predict how accurate Ben Eliezer's prediction is likely to be, and no one should discount Ehud Olmert's determination to hold on. But at a minimum, the latest charges represent an exceptionally unwelcome cloud over Olmert's head as he prepares to greet the President.

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JONES